

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

ANNUAL FOLLOW-UP EXTERNAL AUDIT MANAGEMENT LETTER, PASSENGER FACILITY CHARGE PROGRAM, AND FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2004

INTERNAL AUDIT REPORT 220805-12

DECEMBER 30, 2005



December 30, 2005

Councilman Calvin Lester
Chairman, Shreveport City Council

Dear Councilman:

Subject: IAR 220805-12 - Annual Follow-up on the External Audit Management Letter,
Passenger Facility Charge Program, and Financial Statement Findings for the Year Ended
December 31, 2004

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

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**ANNUAL FOLLOW-UP
EXTERNAL AUDIT MANAGEMENT LETTER,
PASSENGER FACILITY CHARGE PROGRAM,
AND FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2004
INTERNAL AUDIT REPORT (IAR) 220805-12**

BACKGROUND

This report covers the results of our annual follow-up on the December 31, 2004, external audit reports including the:

- Management Letter
- Passenger Facility Charge Program (“Independent Auditor’s Report on Compliance With Requirements Applicable to the Passenger Facility Charge Program and Internal Control Over Compliance” and “Schedule of Passenger Facility Charges Revenues and Disbursements” - henceforth referred to as “other reportable findings”), and
- Financial Statement Findings Reported in Accordance with Government Auditing Standards (“Independent Auditors’ Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133” and “Schedule of Expenditures of Federal Awards” - henceforth referred to as “other reportable findings”).

During their audit of the City of Shreveport’s 2004 annual financial statements, the external auditors brought to management’s attention certain weaknesses involving the internal control structure and its operations that they considered to be reportable conditions according to standards of the American Institute of Certified Public Accountants.

In a management letter and other reportable findings dated April 29, 2005, the external auditors reported weaknesses and management’s responses to those weaknesses.

OBJECTIVES

We have completed the annual follow-up on the external audit management letter and other reportable findings. This follow-up was performed in accordance with the Internal Audit Office’s Operating Instruction A.210.

The follow-up objective was to determine the current status of management’s responses.

SCOPE AND METHODOLOGY

The scope of the follow-up included obtaining a current statement from management explaining the status of each reported response.

The methodology of the follow-up included interviewing and requiring appropriate city employees to complete and sign a questionnaire that defined the status as follows:

- **COMPLETE** - Management's response was implemented.
- **PARTIALLY COMPLETE** - Management's response was partially implemented.
- **NO PROGRESS** - No action was taken regarding management's response.

The current status of each response is listed in the following index and the supporting details follow in the report.

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A. 2004 MANAGEMENT LETTER

FINANCE

1. BID LAW

The City entered into a contract with Bioaset of Shreveport LLC, to process sludge from the Lucas Water Treatment Plant and grow sod, which is sold back to the City. The City donated approximately 450 acres to Bioaset on which Bioaset would be responsible for building the facility and maintaining a sod farm. The City agreed to provide Bioaset with at least 15 dry tons of sludge per day and pay Bioaset a minimum of \$112,500 per month for 25 years for processing the sludge.

While the City followed internal procedures for a service contract and did not place this transaction out for bid, a complaint alleges the City circumvented the bid law by portraying the contract as a service rather than as a public works project given that it involves construction of a facility on public land among a number of other issues. Recently, Bioaset has abandoned the facility and the City is exploring its legal options in connection therewith. Based on the complaint and the number of issues involved, the City should consider the need to obtain an attorney general's opinion in this matter. While ultimately the City may have complied with the bid law consideration should be given to the benefits of placing transactions out for bid which allows for competition among bidders, helps to eliminate the possibility of fraud and favoritism and avoids undue or excessive costs.

Management's response – The contract with Bioaset was a professional services contract. Bioaset was hired to process sewerage sludge from the City's Lucas Wastewater Treatment Plant into "Class A" material; suitable for most any use without restriction. Under the contract, Bioaset was also required to develop a sod farm using the bulk of the processed material as a soil conditioner, and the City would receive a portion of the sod for its needs. Other service proposals were considered and rejected prior to Bioaset's selection, including a proposal for the processing of sludge into a fuel product in conjunction with a proposed power plant at the Port, and the trucking of raw sludge to a composting facility.

Payment to Bioaset for services performed was made by volume-based "tipping fees". The City granted Bioaset a right of use (not a donation, as stated in the comment) of its sludge farm so that it could construct facilities to perform these services. These facilities are owned, maintained, and operated by Bioaset without direction or control by the City.

Bioaset has defaulted on its obligation under the contract (primarily, the obligation to

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develop a turf farm and provide the City with turf) and has recently filed for bankruptcy. Because of the imminent need of uninterrupted operation of the facility, the City is currently operating the facility as "keeper." The City is now considering all options available to it for the long term handling of its sludge; including identifying new service providers to operate the plant, acquisition, and operation of the plant itself, and other possible alternatives.

2005 STATUS (reported by the Controller)-No Progress. No changes to be made.

Although management's questionnaire response indicated complete, no progress is the status for the recommendation because no action had been taken to mitigate the deficiency.

2. COSWEB RECONCILIATION

The reconciliation of COSWEB to the general ledger has not been performed in a timely manner. In December 2004 we requested the September 2004 reconciliation which had not been prepared. As of March 2005 the delinquent reconciliations were completed and were being prepared on a timely basis. In addition, we noted that review of the reconciliation was not documented.

We recommend that the City implement procedures to ensure all reconciliations of accounts are completed timely, reviewed by someone other than the preparer and the review be documented.

Management's Response - We agree that reconciliations were not performed in a timely manner. We will monitor these to ensure timely reporting and the Water and Sewerage fund accountant will document that a review has been performed.

2005 STATUS (reported by the Controller)-Complete. COSWEB reconciliations are current to date and have been reviewed and documented by the Water and Sewerage fund accountant.

3. RECONCILIATION OF FEDERAL PROGRAMS

Consistent with our comment in the prior year, we noted instances in which reconciliations of the support for grant programs to the general ledger were not performed. Specifically we identified the following:

- a. A receivable was not recorded for the Department of Commerce EDA grant. Costs were incurred in 2003 but reimbursement was not requested until August 2004. Thus, the reimbursement request was not timely and accounting was not aware of the grant or the receivable until the revenue was received.

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- b. Reimbursement requests are not made timely for the Airport Improvement Program. Specifically, as of December 16, 2004 we noted the following invoices that had been paid for which reimbursement had not been requested:

		<u>Payment Date</u>
c. Alliance, Inc.	\$12,945	June 25, 2004
d. Best Yet Builders, LLC	\$372,941	September 22, 2004
e. W.D. Shock	\$14,747	October 29, 2004

We, again recommend that a reconciliation process be implemented between the reimbursement requests and the expenditures per the general ledger documenting any differences. Each grant administrator should be responsible for periodically performing this review to ensure that the amounts reported on the reimbursement requests reflect the amounts in that particular grant's expenditure index codes. Based on these facts and the repeat comments, consideration should be given to centralizing grant accounting in the Accounting Division.

- a. **Management's Response** (Department of Commerce EDA grant) – This project (442988), Shreve Industrial Park Roadway, was established in 1996 and has had multiple funding sources over the years. Grant sources were budgeted prior to actual approvals. Accounting previously tried to accrue revenue against a state grant that was not approved at that point, and the auditors disallowed this accrual in 2003. We were not aware that the EDA grant was approved. This project is handled by a City engineer, and we have requested that he notify Accounting as to future drawdowns. Funds were not received until September 2004, which would not have been a timely accrual for 2003. We will continue to monitor this project in coordination with the City engineer in charge of the project.

2005 STATUS (reported by the Controller)-Complete. The City engineer involved with this project has notified Accounting of impending drawdowns on a timely basis.

- b. **Management's Response** (Airport Improvement Program) – We disagree with the general statement that reimbursements are not being made timely for the Airport Improvement Program. However, we do agree that the reimbursement requests for the invoices in question were not made timely. A monthly reconciliation is being prepared by the Manager of Administrative Services and forwarded to the applicable personnel to ensure more timely reimbursement requests.

2005 STATUS (reported by the Controller)-Complete. The Manager of Administrative Services at the Airport is preparing a monthly reconciliation.

4. UNCLAIMED PROPERTY

The City has unclaimed property in the form of outstanding checks totaling \$390,988 that has not been remitted to the State of Louisiana. We recommend the City review this unclaimed property, remit the appropriate amounts to the state, and implement procedures to locate the owners and more timely remit unclaimed items to the state.

Management's Response - We were unaware of this requirement. However, we have determined this comment is correct and the City will follow this recommendation.

2005 STATUS (reported by the Controller)-Complete. The unclaimed property determined as due to the State was remitted in November 2005.

5. PROCUREMENT CARD

We noted three procurement cardholders had not submitted supporting reimbursement documentation as of December 2004 for three reimbursement requests. One was from June 2004 and the remaining two were from October 2004. The documentation for the two in October were subsequently received but no documentation was received for the June 2004 statement. We recommend the City implement procedures to ensure all proper documentation is timely received to support the expenditures purchased with the procurement card.

Management's Response - We agree that supporting documentation was not received timely. Accounting will send monthly correspondence to departments detailing outstanding supporting documentation.

2005 STATUS (reported by the Controller)-Partially Complete. Procurement cardholders are notified on a regular basis as to outstanding documentation requirements. Beginning in January 2006, we will follow this up with written correspondence.

6. SPORTRAN

During 2004, the City capitalized the costs for the Metro Planning Study, a study, for which the purpose is to determine if additional and/or extended SporTran services would be beneficial to the City. Also included in these capitalized costs were labor costs. These expenses did not appear to be valid capital expenditures and, therefore, were expensed through an adjustment. We recommend the City implement procedures with respect to SporTran to ensure assets qualify for capitalization and have initial useful lives extending beyond a single reporting period.

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Management's Response - We agree that these costs should be expensed and appropriate entries were made in the year reported. Future projects will be evaluated to determine if they meet capitalization requirements.

2005 STATUS (reported by the Controller)-Complete. All capital will be reviewed to determine if they qualify for capitalization.

7. CONSTRUCTION IN PROGRESS

During 2004, there were several construction in progress (CIP) accounts that had little or no activity. Some of these were on going projects awaiting funding or development, however, others were completed projects that should have been closed and reclassified as capital assets. By not closing these projects timely, the City has understated depreciation on these projects. We recommend the City implement procedures to review CIP at least quarterly to determine if projects should be closed and reclassified as capital assets.

Management's Response - We agree and will implement appropriate review procedures on a periodic basis.

2005 STATUS (reported by the Controller)-Complete. All capital projects are now reviewed on an ongoing basis to determine completion status. Correspondence is sent to the applicable project manager to determine completion status. Projects substantially complete will be capitalized for depreciation purposes.

8. PAYROLL

Certain payroll files have not been purged since 1997. The files include active employees as well as employees that have "separated" from the City. The separated employees will continue to be corrected in the files until the system is purged. We recommend the City purge the system periodically to eliminate separated employees as this could provide a potential avenue for paying a fictitious employee.

Management's Response - We agree and will purge files through December 31, 2000 on July 1, 2005. Files will be purged periodically in the future.

2005 STATUS (reported by the Controller)-Complete. The payroll files were purged through December 31, 2000 and will be purged periodically in the future.

B. PASSENGER FACILITY CHARGE PROGRAM

SHREVEPORT REGIONAL AIRPORT

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1. 14 CFR Part 158, Appendix A, Assurance 8

Item: 04-1

Criteria or specific requirement: The provisions of 14 CFR Part 158, Appendix A, Assurance 8, prohibits the airport from including in its rate base by means of depreciation, amortization or other means, that portion of the capital costs of a project paid for by PFC revenue.

Condition: We obtained the 2004 calculation of rental rates for terminal rentals. Included in the costs used to determine the rates is the debt service for the 1997 PFC bonds. These bonds are paid with PFC revenue.

Questioned cost: None

Context: See condition above.

Effect: The Authority was not in compliance with 14 CFR Part 158, Appendix A, Assurance 8.

Cause: Unknown.

Recommendation: The Authority should not include any capital costs of a project paid for by PFC revenue, in its determination of terminal rental rates.

Management's response:

A) Name of contact responsible – Manager of Administrative Services

B) Corrective action planned – We do not agree that the Authority was not in compliance with 14 CFR Part 158 Appendix A, Assurance 8. The Airport did not include by means of depreciation, amortization or other means any portion of the capital costs of a project paid for by PFC revenue. While it is true that we did include the debt service for the 1997 PFC bonds in 2004 calculation of the rental rates for the terminal rentals, we also included the PFC revenue in the rate calculation. Therefore, only the “net amount” or the amount that the debt service exceeded the revenue impacted the rental rates for 2004. This amount was funded by our operating account and can be included in the rate calculation.

C) Completion date – N/A

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2005 STATUS (reported by the Manager of Administrative Services)-No Progress.

As stated in the previous response, the Shreveport Airport Authority has not by means of depreciation, amortization or other means included any of the capital costs of a project paid for by PFC revenue. We do not agree with this finding.

Although management's questionnaire response indicated complete, no progress is the status for the recommendation because no action had been taken to mitigate the deficiency.

C. FINANCIAL STATEMENT FINDINGS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

SHREVEPORT REGIONAL AIRPORT

1. DAVIS-BACON ACT

Item: 04-1

Grant: Federal Aviation Administration – Airport Improvement Program

CFDA Number: 20.106

Grant Numbers: 3-22-0048-031 and 3-22-0048-035

Criteria or specific requirement: Davis-Bacon Act

Type of Finding: Material noncompliance and material weakness

Condition: Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirement of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction"). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity a weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). During our audit, we noted two contractors (Wilhite Electric and Russell Electric) did not submit a signed statement of compliance as required by the Davis-Bacon Act.

Questioned Costs: \$529,927

Context: The City had six projects under the grant with payroll costs during the year.

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Some projects only incurred costs during a portion of the year. A total of seven contractors were used for all of the projects. Only two of the seven contractors used subcontractors. We selected 15 weeks of payroll during the year and reviewed one contractor for each week. We reviewed payroll for six different contractors. After expansion of our testwork we noted that the two contractors with exceptions continued to have exceptions.

Effect: The City is not in compliance with the Davis-Bacon Act. This results in a lack of certification from the contractor to ensure reimbursement requested from the Federal Aviation Administration is in compliance with the required prevailing wage rate.

Cause: While we noted that a control was in place for airport management and the master services engineer to review the submitted payroll, it was not operating effectively. Submitted documentation was being initialed as reviewed but errors were not identified. Appropriate procedures are not in place to ensure that the contractors submit a signed statement of compliance.

Recommendation: We recommend the City implement procedures to document that a certified payroll and statement of compliance is received from the contractor and reviewed by the City.

Management's Response:

- A) Name of Contact Responsible - Manager of Administrative Services
- B) Corrective Action Planned - As noted by the finding, procedures are already in place for Airport management and the Master Service Engineer to review the submitted payroll. However, these procedures will be revised to ensure a more efficient process. The Payment Processing Checklist will be revised to state "Certified" payroll attached and the Manager of Administrative Services and the Management Assistant will ensure compliance. The engineer will identify any errors in the wage rates. The Accounting Specialist will continue to audit the certified payroll and identify any arithmetic errors.
- C) Anticipated Completion Date - Immediately

2005 STATUS (reported by the Manager of Administrative Services)-Complete. The Manager of Administrative Services and the Management Assistant are ensuring that the applicable payrolls are certified. The Engineer is reviewing the payroll and identifying any errors in wage rates if found. The Accounting Specialist continues to audit the certified payrolls and identifying any arithmetic errors.

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2. CASH MANAGEMENT

Item: 04-2

Grant: Federal Aviation Administration – Airport Improvement Program

CFDA Number: 20.106

Grant Number: 3-22-0048-035, 3-22-0047-012, 3-22-0048-33

Criteria or specific requirement: Cash Management

Type of Finding: Noncompliance and reportable condition

Condition: When entities are funded on a reimbursement basis, program costs must be paid for with entity funds before reimbursement may be requested from the Federal Government. During our audit, we noted four instances (check numbers 340456, 343095, 336218 and 345525) where program costs were requested for reimbursement prior to being paid by the City.

Questioned Costs: None.

Context: Out of a total sample of 44 checks, four instances were found whereby the check date was subsequent to request for reimbursement.

Effect: The City is not in compliance with cash management requirements.

Cause: Appropriate procedures are not in place to ensure that reimbursements are requested only after payment has been made by the City.

Recommendation: We recommend that the City implement procedures to verify and document that payment has been made before reimbursement is requested. The City should also implement procedures to reconcile reimbursement requests to the general ledger.

Management's Response:

- A) Name of Contact Responsible – Manager of Administrative Services
- B) Corrective Action Planned – We agree that there may be some instances in which the reimbursement request was made prior to the invoice being paid by the City. Our current procedure is to submit the invoice to the Finance Department for

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payment, then we prepare the reimbursement request. The Management Assistant will now review the FAMIS system to ensure that a check has printed before the reimbursement request is processed.

C) Anticipated Completion Date - Immediately

2005 STATUS (reported by the Manager of Administrative Services)-Complete.

The Management Assistant is now reviewing the FAMIS System to ensure that a check has printed before the reimbursement request is submitted.

FINANCE

3. EQUIPMENT AND REAL PROPERTY MANAGEMENT

Item: 04-3

Grant: Federal Aviation Administration – Airport Improvement Program

CFDA Number: 20.106

Grant Number: 3-22-0048-031

Criteria or specific requirement: Equipment and Real Property Management

Type of Finding: Noncompliance and reportable condition

Condition: The percentage of federal participation and the condition of the equipment were not included in the property records for the runway sweeper per prior year item 03-2. Corrective action planned has not been completed.

Questioned Costs: None.

Context: See condition above.

Effect: This results in a lack of information to ensure reimbursement to the FAA for the federal share of sales proceeds when subject equipment is sold and to ensure proper valuation of equipment for reporting, depreciation, replacement, and disposal.

Cause: Appropriate procedures are not in place to ensure that the federal participation and equipment condition are documented in the property records.

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Recommendation: Create appropriate fields in the fixed asset system to record federal participation and the equipment's condition at the time of acquisition. Implement procedures to record information and compute reimbursement as equipment and real estate are sold.

Management's Response:

- A) Name of Contact Responsible - Fixed Asset Accountant
- B) Corrective Action Planned - During 2004, attempts were made to use fields in the Fixed Asset System to identify federal participation, but the system did not recognize these fields. It was determined that programming changes would be required. Changes and testing will be done in 2005.
- C) Anticipated Completion Date - October 2005

2005 STATUS (reported by the Fixed Asset Accountant)-Complete. Management's response has been fully implemented. As of September 2005, Fixed Asset Accountant made necessary changes and tested new procedures for recording assets with Federal/State Grant participation. Appropriate fields in the FAACS system will be used to identify assets with Grant participation.

MAYOR

4. REPORTING

Item: 04-4

Grant: Environmental Protection Agency – North Regional Sewer Service Area Infrastructure Rehabilitation Program

CFDA Number: 66.606

Grant Numbers: XP-986915-01-0

Criteria or specific requirement: Reporting

Type of Finding: Noncompliance and reportable condition

Condition: The City's agreement with the Environmental Protection Agency states: "The recipient agrees to comply with the requirements of EPA's Program for Utilization of Small, Minority and Women's Business Enterprises in procurement under assistance

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agreements. The recipient agrees to submit an EPA form 5700-52A "MBE-WBE Utilization Under Federal Grants, Cooperative Agreements and Interagency Agreement" beginning with the federal fiscal year quarter the recipient receives the award, and continuing until the project is complete." During our audit, we noted the form 5700-52A "MBE-WBE" Utilization Under Federal Grants, Cooperative Agreements and Interagency Agreement did not include required data regarding the "MBE-WBE" utilization by the City. Reports over the time period that construction work was performed should have contained costs, but all the reports in 2004 were filed without any relevant construction labor cost reported. The City did not request supporting information from the contractor related to "MBE-WBE" utilization in order to complete the form correctly.

Questioned Costs: None.

Context: We tested 100% of the population of reports.

Effect: The City is not in compliance with reporting requirements.

Cause: Appropriate procedures are not in place to properly review and document that MBE-WBE utilization reports are submitted by contractors and properly reported to the federal agency.

Recommendation: We recommend the City implement procedures to document that MBE-WBE utilization reports are submitted by contractors and reviewed by the City and information is properly reported to the Federal Agency.

Management's Response:

- A) Name of Contact Responsible - Grant Writer and Project Manager
- B) Corrective Action Planned - The EPA DBE Coordinator requested that the City report the total contract amount for MBE/WBE utilization on Form 5700-52A when executed rather than showing costs as expenditures occur. The City is inclined to comply with the federal agency's request since it has the authority to withhold funding.
- C) Anticipated Completion Date -August 31, 2005

2005 STATUS (reported by the Grant Writer/Administrator)-Complete. A team from EPA reviewed the grant project on August 8, 2005 and determined the city was in compliance and all tasks completed. Project Officer Henry Liao, P.E. of EPA advised the City to move forward with the close out of the grant.

5. MATCHING

Item: 04-5

Grant: Environmental Protection Agency – North Regional Sewer Area Infrastructure Rehabilitation Program

CFDA Number: 66.606

Grant Number: XP-986915-01-0

Criteria or specific requirement: Matching

Type of Finding: Noncompliance and reportable condition

Condition: The City is required to provide contributions of 45% of approved costs, and the agency provides the remaining 55%. The City requested 57.10% of the existing contract cost. The reimbursement request was not in compliance with matching requirements of the grant based on the existing contract with the contractor.

Questioned Costs: \$35,571

Context: See condition above.

Effect: The City is not in compliance with the matching requirements of the grant and may be required to refund grant revenue to the federal agency at the end of the project.

Cause: Reimbursement was requested based on total amount allowed without consideration of matching requirements. Appropriate procedures are not in place to review and document that reimbursement requests consider the matching requirements of the grant.

Recommendation: We recommend the City implement procedures to review and document that the matching requirement is considered at the time of the reimbursement.

Management's Response:

A) Name of Contact Responsible - Grant Writer and Project Manager

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B) Corrective Action Planned - The City requested reimbursement aware of an impending change order which would increase the contract amount. That change order became effective on February 1, 2005, making the City's effective request 55% of the amended contract. The City is confident that it will contribute more than its 45% costs share and will not be required to refund grant revenue to the federal agency at the end of the project.

C) Anticipated Completion Date -August 31, 2005

2005 STATUS (reported by the Grant Writer/Administrator)-Complete. See comments on recommendation #04-4.

Prepared By:

Tamika Ford
Staff Auditor

Approved By:

Leanis L. Graham, CIA, CPA
City Internal Auditor

TF:lp

c: Mayor
CAO
City Attorney
City Council
Clerk of Council
External Auditor
Director of Finance
Director of Airports